The Kirk Report

Members Only
For Dave Landry Thursday, June 11, 2009

Q&A With Dave Landry

Thursday, April 23, 2009 at 12:52 PM

If you trade stocks, sooner or later you are bound to cross the path of Dave Landry.

Through the years Dave has created a loyal following and strong online presence by offering his daily insight and trading advice. Dave has been actively trading the markets since the early 90s. In 1995 he founded Sentive Trading, a trading and advisory firm. He is author of Dave Landry on Swing Trading (2000), Dave Landry's 10 Best Swing Trading Patterns & Strategies (2003), and The Layman's Guide to Trading (2009). Dave is also known for among other things for his unique *"Market In a Minute"* video which is provided daily to subscribers to his free **daily newsletter**.

Dave has made several television appearances, has written articles for several publications including Technical Analysis of Stocks & Commodities, Active Trader, and Traders Journal (Singapore). He has been publishing daily web based commentary on technical trading since 1997. He has spoken at trading conferences both nationally and internationally and is a registered Commodity Trading Advisor (CTA) since 1995 and a member of the American Association of Professional Technical Analysts.

Dave brings a tremendous amount of trading experience and insight for us to consider. In fact, when I polled members in our annual membership survey and asked for recommendations on who I should interview this year, Dave Landry was at the top of that list. So, it is with great pleasure to present this Q&A. We hope you enjoy it and find it helpful.

Q&A with Dave Landry

Kirk: First of all, thank you for taking the time to answer our questions. I speak for many members who have a great deal of respect for you and we sincerely welcome you to the website.

Dave Landry: I consider it an honor to be here Charles. Thanks for having me.

Kirk: Please tell us a little bit about how you got interested in trading.

Dave Landry: I think I've always had a fascination with markets and trading. When I was a kid I collected coins. I remember in the school yard offering other kids several times face value on dimes, quarters, and fifty cent pieces with the year 1964 or lower. They, or my likely their parents, eventually got wise to me, realizing those coins were made out of silver. I remember showing my mother that my coin collection was worth around $10k based on an ad in the newspaper for a traveling salesman offering to buy silver. I fantasized about how much my silver would be worth in coming years. This was at the height of the Hunt brothers trying to corner the market on silver. It was a great lesson in bubbles. I was also a gold bug. Somehow, I managed to get my father on every broker's cold call list you could imagine. Although he wasn't very pleased with this, he appreciated my interest in the markets.

I never did lose my fascination with the markets but somehow I got sidetracked in college and in my early career. In the late 80s, I began investing in mutual funds. I'd plot them and post the charts in a spare bedroom of my apartment. I eventually got bored with their lack of movement and decided to start trading stocks. I sold an old boat that wasn't being used for $1,000. I bought 100 shares of my first stock and watched in agony as it sank $1.50 the first week I owned it. Although it wasn't like I needed the money to live, I felt like I had been wiped out. This was my first lesson in market timing, money management, and trader's psychology. Eventually the stock began to rally. I sold the shares parlayed the money into an options position. Luckily, that worked. Before long, I was actively trading stocks and options.

Kirk: What is your professional and educational background?

Dave Landry: I have an undergraduate degree in Computer Science and an MBA. The MBA is pretty much worthless for trading but it does look good on the wall. When I decided to become a full time trader, I assumed that the computer science degree would really come into play. I figured all I had to do was to program a mechanical system and I would sit back and make money. I spent years searching for the "holy grail." Eventually I realized there was none.

Kirk: Unfortunately too many traders don't come to that realization before it is too late!

Dave Landry: Amen, I think it's a journey we all have to go through. Time and time again, I see novices do really well with my simple approach. However, as soon as they hit the enviable drawdown, they go off to chase rainbows. Those who tough it out, usually end up right back where they started.

Do you trade anything other than equities and options (futures, ETFs, currencies, etc.)?

Dave Landry: A friend once joked that if heard intravenous drug use was on the rise, I'd buy needles. I don't think I'm that bad but I will trade pretty much any instrument that moves. In more recent years I have focused mostly on stocks but again, I will trade any instrument that moves. Drug use isn't on the rise, is it?

Kirk: Why and how did you decide to focus more on trading stocks recently.

Dave Landry: Markets that are over analyzed and traded by many tend to be efficient. They tend to chop around. And, when they do trend, they don't make very big moves, at least not shorter-term. Everyone tends to agree on price and traders tend to cancel each other out.

An inefficient market is one where everything isn't "priced in." It has a chance to make a large move as new information flows into the market and more and more traders "discover" the stock. It's much tougher to capture trends in something like the S&P Minis where everybody and their brother is trying to trade them. I'd much rather dig through 1000s of stocks looking for the next big winner. I let the other guys fight it out in the overtraded markets. Now, this is not to say that great trends cannot be caught in other markets. It's just not as easy. You have to be selective. I like trading transitional patterns in Forex off of major highs and lows. Obviously though, major highs and lows don't occur that often.

Although my favorite thing to go on a treasure hunt for the next big stock, I will occasionally trade ETFs based on commodities, bonds, or other instruments. You're not going to get rich with these, but they can help to supplement or smooth out your portfolio, especially in less than ideal stock market conditions.

Kirk: So, in a nutshell, how do you currently approach the market and your primary trading strategy?

Dave Landry: Pullbacks!

Kirk: Ok. What are some of the key rules or factors that you consider before selecting any potential trading opportunity?

Dave Landry: I approach the market in a top down manner: market/sector/stock applied in a bottom up fashion: study 1000s of stocks, study 100s of sectors/ETFs, and then study the indices. Looking at all these charts gives me a good feel for what's really going on within the market.

Kirk: In an average week how many trades do you make? What is your average hold time and how many positions do you have open at any given time?

Dave Landry: It varies depending on market conditions. In choppy markets, I might go weeks without making a trade. In momentum markets, I might be putting on positions daily. In general, there are only a few stocks that I'm looking to buy or sell short daily. As far as the number of positions, I get a little nervous once my portfolio hits high single digits. The good news is, usually if I have that many positions on, they were likely built during good times. And, I have taken partial profits along the way. As far as hold time, whenever I enter a position I hope to be in it 10 years from now. Unfortunately, the money and position management takes me out much sooner. So, it varies from a few days to months. Although I'm slotted as a swing trader, I like to see myself as an intermediate-term trader with better entries and money management. I think this approach is the best of both worlds—looking for short-term gains but willing to ride out longer-term winners.

Kirk: What would you say is your average win/loss ratio for your trades?

Dave Landry: I used to spend a lot of time studying statistics. Now I just focus on finding the best setups. Statistics are worthless, 78% of all people know that. Seriously, the methodology is skewed. So, a few big winners make up the majority of the gains. I'm not sure that averaging this out makes sense. In momentum markets, the methodology prints money. In less than ideal conditions, it underperforms. I suppose that pretty much goes for trend following in general. So again, I'm not sure statistics are valid, especially since it's a discretionary methodology. Although, I don't publish official results, I do make available 5 years or so of my service archives. I like to let people draw their own conclusions. Essentially, you chip away it with a poor win/loss ratio and then bam you hit a few big winners and make your year. In better years, you get more and more homeruns. I remember in the late 90s, I had stocks from my column skyrocket within a day. One went up over 50 points in one afternoon. Now it seems to take a while. We did a have a few winners of that magnitude in 2008 but they were held for many months. Without those, it would have been a negative year. As a trend follower I respect said many years ago, you're playing for the outlier—the few big trades that make your year.

Kirk: How has your overall performance been recently, as well as the past few years?

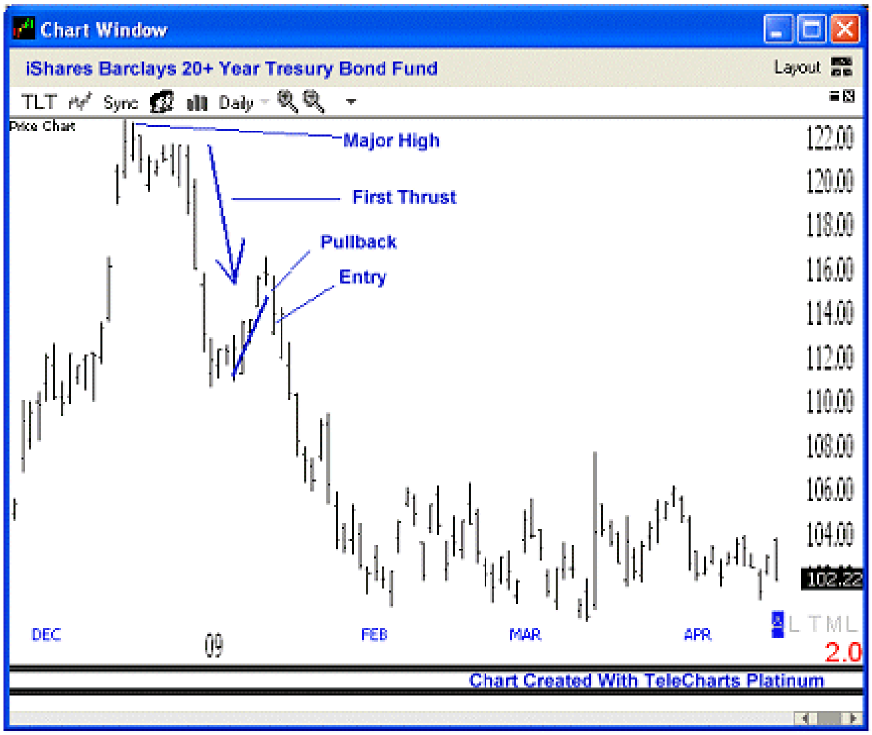
Dave Landry: Again, I don't publish results but I do make the last 5 years of my service archives available so people can draw their own conclusions. As far as recent performance, quarter one was tough one. We did no better than the overall market. Choppy markets and sharp reversals are the nemesis of trend trading. In Q1, we had both. The good news is, good times tend to follow bad and unfortunately, vise versa. With that said, we're seeing some improvement in Q2. Last year we ended in the black but didn't set the world on fire. Prior years were much better.

Kirk: What would you say are your favorite kinds of technical setups in trading pullbacks?

Dave Landry: Probably my favorite versions are transitional setups since the potential exists to capture a new trend early. In a great momentum market, generic pullbacks work the best.

Kirk: Can you give us a recent example of a technical setup you found to be very attractive?

Dave Landry: Its been tough in more recent times but a few come to mind. Bonds (basis the **iShares Barclays 20+ Year Treasury Bond Fund (TLT)**) made a sharp thrust lower from multi-year highs followed but a retrace (pullback).



This is a pattern I call a **First Thrust** I think we may have caught the mother-of-all tops here. Energies, especially on an individual issue basis have been making some nice moves out of transitional patterns lately.

Kirk: Have you noticed any setups more prone for failure than they have in the past? Are there any patterns you tend to shy away from based on personal experience?

Dave Landry: Yes. Markets have become more volatile over the past few years. It's much tougher to ride out trends. I have compensated by widening stops and decreasing positions sizes. In general, give me a nice long-term bull market and I'm happy. As far as patterns, pretty much all my stuff is based on pullbacks in trends. This has worked for 100s of years and I would imagine that it will continue to work. I'm not saying that you don't have to adjust or it's easy. I just think that a conceptually correct simple approach works best longer-term.

Kirk: In recent years, have you discovered any new patterns that have been helping you achieve more success?

Dave Landry: Not so much new patterns as variations on my existing pullback patterns. For instance, I've recently discovered a way to help quantify my First Thrust pattern. I'll probably continue to use the First Thrust pattern as is, but I think people who need things more quantified or visually easier to recognize will really like the pattern.

Kirk: What the most important thing to know about how to buy the pullback successfully?

Dave Landry: There's a lot to it. In sharp trends you want sharp pullbacks. In longer-term momentum markets, shallow pullbacks are okay and work well. With transitional setups, you have to take them at the first sign of a correction. Otherwise, you're going to be left behind. In runaway momentum markets, you want to enter as early as possible. You can trade in more of a textbook manner and sometimes even front run the setup. In choppy and volatile markets, you want to be more liberal with your entries. In recent years, this has kept me out of a lot of losing trades that would have triggered in a more textbook manner on noise alone.

Kirk: From your "Market In A Minute" sessions, your chart setup looks fairly basic and straightforward. Do you utilize any technical analysis studies (like stochastics, moving averages, etc.) as well?

Dave Landry: What's a Stochastic? LOL. I've studied everything under the sun and have come back to a simple blank chart. I do occasionally use moving averages (e.g. my **Bow Tie pattern**) but more often than not, I use blank charts. Indicators are based on a derivative of price. Therefore, they have lag. I'm a price purest. In fact, I don't even use volume. I do respect those that use indicators successfully. However, I'd be willing to be that if you took away their indicators, you'd discover that they are great chart readers.

Kirk: Do you still used the Average Directional Index (ADX)?

Dave Landry: No. As I said in my second book, I think I inadvertently put too much emphasis on it in my first book. Back then I was encouraged to quantify trend and did use it to some extent for scanning. Now I just look at a tremendous amount of stocks with very loose parameter scans. In fact, I look at my entire tradable universe daily. You'll notice that my second book (and soon to be published third book) does not have any examples with ADX.

Kirk: Can you provide us with few examples of successful and unsuccessful trades recently that provide a good idea of how you integrate chart analysis in your approach?

Dave Landry: With transitional patterns, I seem to have a habit of being right but early. **Apollo Group (APOL)** looked like it was rolling over and after some initial follow through to the downside, had a sharp retracement and hit the stops. Of course, it then imploded.

With all trades, I do a post mortem. In this case and in pretty much every case over the last few years, I could not find anything wrong with the trade. I noticed that the stock was a little wide and loose but I knew this going in.

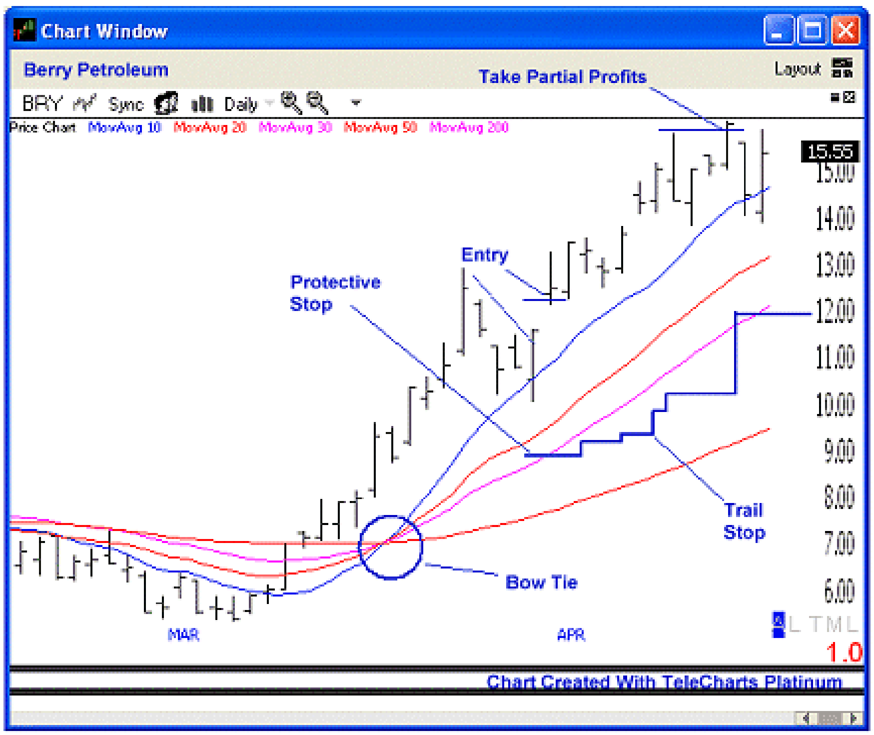
Someone recently emailed me telling me that they are going to go back and learn what not to do from each and every recent losing trade. Although there might be something to learn, sometimes you can do everything right and still lose money. This gentleman seemed certain that there was something to learn from ever trade. Sometimes there isn't any. I would imagine that this individual is going to create a lot of unnecessary rules for himself.

As far as winners, the aforementioned top in **iShares Barclays 20+ Year Treasury Bond Fund (TLT)** (or bottom in

ProShares UltraShort 20+ Year Treasury (TBT)) comes to mind. It made a nice transitional pattern off of life of contract highs. This is one of my favorite patterns. In fact, I think if all you did was take transitional patterns off of all-time (or at least multi-year) highs or lows, I think you'd do quite well. You'd spend a lot of time sitting on your hands, but I don't think this is a bad thing. We recently got knocked out of a few longer-term "trend following moron" type trades left over from last summer, believe it or not. This is where the real money is—longer-term trend following.

Kirk: Let's talk a little bit about position sizing. Can you provide an example of a recent trade and explain your method for determining the size relative to your own trading portfolio?

Dave Landry: I try to stay consistent on all trades. I risk 2% maximum if stopped out. This doesn't mean I buy $2,000 worth of stock on a 100k portfolio. It means that if stopped out, my goal is to lose no more than 2% of my portfolio, regardless of the price of the stock. As a recent example, **Berry Petroleum (BRY)** set up as a Bow Tie/Pullback on 04/01/09.



The entry was $12.50, the protective stop was $9, and the initial profit target was $16. Since you are risking $3.50 stopped out, based on a 100k portfolio $2,000 risked if stopped, you would buy 571 shares (2000/3.50=571) or 600 shares round numbers. $3.50 might sound like a loose top, especially on a percentage basis, but that's what the stock calls for. It has a 50-day historical volatility rating over 100. I "eyeball" these things and notice that the stock bounces around a least 1-2 points a day. Therefore, it requires a fairly loose stop. Again my service **archives** are available if you want to study this and prior trades.

Kirk: What mistakes do you think most traders make concerning position sizing?

Dave Landry: They are inconsistent. Each and every trade has the potential to be wrong. You have to trade with a fixed percentage of your portfolio on every trade.

Kirk: I know you emphasize the utilization of stops. So, what's your method to setting stops?

Dave Landry: I tend to eyeball them. I have an article on my website which goes into more detail but the bottom line is, I just eyeball them. If a stock bounces around 5 points a day, then your stop better be more than 5 points away from your entry. Otherwise, you're going to be stopped out on noise alone. I think the most common mistake is thinking that you are controlling risk with tight stops. Tight stops actually will create losses.

Kirk: Do you ever average down into a losing trade? Why or why not?

Dave Landry: No. I take my licks. In theory, you could average down provided that (for longs) the company never goes out of business and you don't run out of money. Those are two big ifs.

Kirk: Can you provide some details regarding your money management system?

Dave Landry: My basic money management system is to look for to make at least the same amount of my initial stop on half of my position. When this goal is achieved, I move my stop to breakeven on the remainder. This gives me the potential for a home run on those shares and the worst I can do is breakeven-barring overnight gaps. I then trail the protective stop on the remainder at the same distance as my initial risk. For example, if I bought a $30 stock using a $5 stop, I would exit half at $35. I would then trail my stop on the remainder at 5 points below the closing price. If the stock continued to move in my favor, I might open that stop up a bit within reason. This helps me to participate in a longer-term move. One more point, I do trail the stop higher on a favorable move even before the initial profit target is hit, usually on a closing basis. For instance, suppose I bought a stock at $30 and my initial stop was at $25. If the stock closes at $31, I would raise the stop to 5 points below that closing price—to $26. I usually trail on a closing basis unless the profit target is hit, then I immediately move the stop up to breakeven.

I've been asked if my money management system is statistical or psychology based. My answer is yes. I like being able to "play with the market's money." Once you've taken partial profits, it's a great place to be from a psychological standpoint. From a statistical standpoint, sometimes you're able to profit from noise alone in less than ideal conditions. One more because I know someone will ask it. If all you ever achieved was the initial profit target and then got stopped out on the remainder, you're risking twice as much as you are making. Therefore, unless you are extremely accurate, this money management system would have a negative expectancy. The reason is does work is because you have the ability to make many times the initial risk on the occasional homeruns.

I use the work "basic" because there are ways to improve upon this system. In choppy markets I might take partial profits on a "near miss" and in momentum markets I might let things ride a bit. I explain these things in articles on my website and in my weekly webcasts.

Kirk: I can see how this kind of strategy can work and be useful if employed consistently.

As you know, all good traders dedicate a lot of time and effort to improvement and reducing mistakes. How has your trading method evolved and improved over the years?

Dave Landry: I've become more and more selective, sometimes to a fault. I used to always want to be in the market. I've learned that you're much better off letting the market prove itself before entering. I tend to trade now only when I can't stand being out of the market because opportunities abound. One thing that I have learned in more recent times is to be a little more quick to adjust to changing volatility. Over the years I also have learned more and more that the real money is in longer-term trends. I think my short-to-intermediate-term approach allows me to have the best of both worlds—short term gains and money management with the potential for longer-term homeruns.

Kirk: Can you provide an example of something you thought was true when trading early in your career and now believe is just dead wrong?

Dave Landry: Yes. I thought that there were people out there who knew EXACTLY where the market was headed and that if I studied hard enough, I too would know. I also thought there was a way you could pick tops and bottoms. I now know that you have to wait for some sort of transition in trend before looking trade off a top or bottom.

Every now and then even to this day I get stressed when someone hits upon something that appears to work incredibly well or so they claim. I feel better when they hit the inevitable drawdown. It's not schadenfreude though. I'm not being malicious. It just makes me realize that no one knows exactly where a market is headed. It also reinforces the fact that I should stick with something simple.

Kirk: How much time and attention to you pay attention to others' opinions about the market and/or stocks you are trading?

Dave Landry: Very little. I know this might seem vain but it tends to cloud my judgment. There are a few people out there that I admire and respect and you are one of the few Charles.

However, again, when I begin listening to them it tends to cloud my judgment. If I agree with them, I tend to become too confident. If I disagree with them when I'm confident, then it tends to shake my beliefs.

Kirk: I appreciate the sentiment and you know I'm in complete agreement with you on this. Opinions from others can wreak havoc. While they may help to some degree, the traders who do well listen to only one voice - their own.

Please describe a typical trading day for you? How do you organize and dedicate your time?

Dave Landry: Most of the work is done after hours. I spend hours tooling through charts. In fact, I recently did a **webinar** on just that. All of what I do is very open. In fact, I even give away my scans. It's a lot of work. Most aren't willing to put the time in. As far as actual trading, the open can be a little hectic. After that, much of the time, there's not much to do. In an ideal world, I just ride out longer-term winners. This gives me time to work on projects, research, and my educational and research business.

Kirk: Can you give us some idea of what tools you use to monitor the markets (i.e. your trading platform, software, websites, etc?)

Dave Landry: I use a major brokerage for executions. I would recommend staying with a major brokerage. In theory they should give you better fills and have more shares to borrow. For my methodology, you do not need direct access. In fact, I would caution against it.

As far as websites, since I generally don't follow anyone, there aren't any. I do occasionally go to Yahoo Finance to company profiles. I'm not looking for fundamentals when I do this. I'm simply confirming what sector the company is in (when in doubt). For charting, I use TeleCharts. I love it. I sent so many people to the company, they made me a distributor. I do virtually all of my analysis with it stocks, scanning, sectors, ETFs etc. I can go on and on but it will start to sound like an advertisement. I truly do love it and use it. Have your readers contact me directly if they would like to be part of my club there. Again, I'll even give them my scans.

Kirk: I know from watching your "Market In A Minute" videos that you stress sector-based technical analysis in your approach. Why is this so important to you?

Dave Landry: One of the few Wall Street Adages that is true is "a rising tide lifts all boats." This is even more true for sectors.

Kirk: Please explain the process of how you go about finding your trading setups.

Dave Landry: Once a week, I run a simple price volume scan to produce a tradable universe watchlist. "Tradable universe" varies with market conditions. For instance, since we've had such a long bear market, I'm considering somewhat lower prices stocks. With that said, right now, I'm looking for stocks with at least 400k average volume with a price of at least $5 per share. This produces around 1600 stocks. I look at my entire tradable universe sorted by volatility usually an hour before the close. From this, I have a pretty good idea where I'll be focusing the next day. I'll flag anything that's interesting and put in a list I have dubbed my "Top 100." After the close, I run a simple pullback scan on the entire stock universe. Once again, I'm flagging stocks and copying them to my top 100. I do this very quickly. I then go through my top 100 more slowly, paying a little more attention to each stock. On those that I think might have potential, I'll make a note of them. If I notice that I have a half dozen energy stocks setting up, and not much anywhere else then I know that I should probably focus on the energy stocks the next day. This list is what I call my "Landry List." I then do my sector analysis which consists of looking through all 239 MorningStar industry groups. I'll also look a major sector indices such as the XOI, XBD, SOX, etc.. I then look at the top 100 or so ETFs sorted by volume. I don't use volume as an indicator but rather as a means to sort out less meaningful ETFs. I used to look at all of them, but now that there's 900 of them, I really don't care about the super thin ones towards the bottom of the list. For instance, I am interested in what's going on in the Qs, Russell, Bonds, Gold ETFs which trade thousands of shares daily. I'm not so much interested in South African Monkey Bonds ETF which traded 10 shares today. No offense to those who trade monkey bonds.

Kirk: Yep, be careful of those monkeys! I'm sure this process would take a lot of time to get used to, but certainly would offer a great preparation for the following trading day.

Like everyone else, we both experience hot and cold hands at times. Are there any "tricks of the trade" that you use to help maintain a consistent successful approach over a long period of time?

Dave Landry: Longevity is key. If you can survive long enough, you'll get it. You survive through the use of following your game plan and three other things: money management, money management, money management. The highs are high and the lows are low. Balance is also key. You can't let it go to your head in good times and you can't get too depressed in bad times. Good times follow bad but unfortunately, the opposite is also true.

Momentum trading can be streaky. You print money for a while then underperform. Novice traders who begin following me during good times think I'm God. And worse, they begin to think they are too. They begin to get careless, risking too much and trying to outsmart the system. On the flip side, novice traders who follow me during less than ideal conditions think I'm an idiot. They probably wonder if this guy ever makes a buck. They give up right before the next big trends develop. I call this African Queen Syndrome. In the movie African Queen, Charlie (Humphrey Bogart) and Rose (Katharine Hepburn) go through all sorts of trials and tribulations with nature and the enemy as they try to make it to lake at the end of the river. They give up. The camera pans back for one of the most powerful scenes in the history of cinema. They were within feet of the lake. If only they would have hung on a little longer, they would have made it.

Kirk: I have to rent that movie!

Dave Landry: You can borrow my copy!

Kirk: Most traders I know have a set of rules that they have learned from past mistakes. What are a few of yours that you think most traders would benefit from?

Dave Landry: Keep bets within reason. No matter how great a setup looks, there's always a chance you can still be wrong.

Don't fight trends. Trade only when you think you have an edge. Ideally, this means that the market, the sectors, and the stock are all trending. Realize that knowing when not to trade is as important as knowing when to trade. I often joke that we are more wait-ers than trade-ers.

Kirk: You've been trading for some time now. What would you say are the biggest changes in the markets and trading in general you've seen during your career both good and bad?

Dave Landry: The market doesn't seem to trend as well as it used to. However, I would hesitate to say that something has changed. The market didn't trend for extended periods in the 70s.

Kirk: Do you think it is easier or more challenging to trade for a living now than in the past?

Dave Landry: Volatility dried up after 2000. It became tougher to trade during lower volatility markets. I suppose you need to be careful what you wish for. It's now back. With volatility comes opportunities but it seems to be tougher to catch trends in more recent years. Don't get me wrong, we've caught some great ones — shorting energies and stocks in general for that matter in '08. They (big winners) just seem to be fewer and farther between. It seems like you have to work harder now than you ever did. Again though, longevity is key. When we hit the next great bull market, I'll be ready. In the meantime, if the market rolls back over, I'll be shorting it. It's tough to ride out the retrace rallies, but it comes with the territory.

One other thought since it seems to be a hot topic. I don't like all the government intervention in more recent times. This has made trading more difficult. Free markets will eventually fix themselves. I think the intervention does more harm than good.

Kirk: The learning curve to trading successfully is long and expensive for most. Can you tell us about how you navigated this curve successfully?

Dave Landry: It was no different for me. I spent a ton on education materials and much more in real markets. It took me years to figure out my simple approach. During good conditions, a novice can take my stuff and do exceptionally well. However, human nature eventually rears its ugly head. If conditions continue to be great they tend to try to outsmart the system. They begin looking to anticipate the beginning and ending of the trend. They begin risking too much. When the first inevitable drawdown comes along, they begin looking to change methodologies because trend following no longer works. They start trading choppy market systems, using a bunch of indicators, and so forth. They end up being perpetually out of phase. Fast forward 10 years and they find themselves back to a simple approach. My favorite clients are those who try my stuff, go off to chase rainbows, and then return to me many years later.

Kirk: I've seen the same here Dave. So, what kind of advice would you give a person just now beginning in trading the markets?

Dave Landry: Start small and build. The markets will always be there. You'll only be smarter in the future. Paper trade until you are successful. And by the way, I've never met an unsuccessful paper trader. Once you think you have a viable methodology, then slowly begin trading it with real money. Only then will you learn about all the psychological pitfalls. Also, you have to be very careful not to confuse brains with a bull or bear market.

Study money management at least as hard as the markets early on. Probably the best thing you could do is to take just one pattern and get good at it. I think something like my Persistent Pullbacks would be a good place to start. They're easy to recognize and self regulate. You don't get many or any in choppy markets. You also rarely get any against the trend. In fact, I don't remember any on the long side in 2008.

Kirk: What do you think are the greatest misconceptions beginning traders have about trading the markets and about trading systems?

Dave Landry: That someone actually knows exactly where the market is headed. All systems including mine will have losers and drawdowns.

Kirk: A number of people who read my website desire to trade for a living. Like you, I receive a lot of questions concerning capital requirements needed to start and how to make the transition to trade full-time. Do you have any words of wisdom or rules of thumb to share along these lines?

Dave Landry: You have to have your basic needs covered so you're not trading with the rent money. With my methodology there will be extended periods where there is nothing to do. Trying to make something happen during these conditions because you need the money will create losses. Quoting from a book I'm working on:

> *"With my style, I find that busy traders make good traders. They tend to trade only when opportunities present themselves and then they go off to save lives, build buildings, and do other great things. Sitting in front of a screen*

> *all day is a recipe for disaster. Every little tick becomes larger than life. It'll look like a new trend is emerging or an old one is ending. You'll find yourself firing off day trades, micromanaging yourself out of soon-to-become big winners, and taking setups that are mediocre at best. Sitting in front of a screen all day is like sitting in front of a slot machine.*
>
> *If you do have the luxury of being able to watch the markets all day, make sure you have some other interest to keep you busy. Don't depend on the market for entertainment. In dull conditions, do some research or study historical markets. Or, enjoy a hobby, start a new business, or pay more attention to your friends and loved ones.*"

Trends take time to develop. Be prepared to go many months without making any money and likely losing money. Psychologically, this can be difficult for many. Also, temper your expectations. The best money managers in the world shoot for realistic returns do so with very low drawdowns. If you run money and consistently make low double digit returns with small drawdowns, you'll have all the money you could ever want to manage. So, treat your own business as if you were professional money manager. It's okay to press a little now and then. Just make sure it's the exception and not the norm.

Kirk: Great advice Dave.

What are the things you like best about the trading business?

Dave Landry: I suppose it's the freedom but it's a different kind of freedom. No one tells me what to do or when to do it. However, because the markets are rarely closed and you must be present to win, it's tough to have time off. Most of my vacations are working ones. I carry a laptop with me. My international popularity seems to be growing, so I'm beginning to see more the world. My next appearance is in Australia. That's pretty cool. I often think how nice it would be able to put in for some vacation days and relax. I then soon realize after a few says of bliss, in many cases, you'd be back to having no control over your destiny. When market conditions are good, I have the best job in the world. In less than ideal conditions, I, and I'm sure all others who trade, find themselves doing some soul searching. It can be a lonely business at times but I wouldn't trade it for anything in the world.

Kirk: How does a person know it is the right time and the right decision for them to trade for a living?

Dave Landry: From a swing-to-intermediate-term perspective, you have to be profitable while you still have a day job. If you're not, don't think that something will magically happen once you go fulltime. Once you are profitable, don't think that you'll be even more profitable staring at a screen all day. You might find that you're firing trades off based on boredom or because you feel that you have to do something. You have to have realistic expectations. Occasionally conditions are great and you get unbelievable returns. For the most part though, you'll end up grinding it out. As I preach, if you're trading momentum, it can take 6-8 months and sometimes longer to capture a good momentum cycle. Be prepared to not have any income for this period of time. Again, have realistic expectations. Some of the best money managers out there only return in the low double digits but do so while keeping drawdowns in check. With my style, busy traders make good traders. If you're good at what you do in your current career, I would encourage you to keep career and then slowly ease into trading. Unless you really hate what you do, I think you could continue to do both.

Kirk: Do you think trading for a living is getting more difficult or easier for the average individual investor? Why or why not?

Dave Landry: I have to speak in terms of current conditions. Keep in mind that conditions change. Right now, the volatility is high so it's a little tougher to hold positions longer-term. I'm not complaining though, I'd rather volatility too high than too low. Although I preach against daytrading, the current high volatility environment is good for them. I'm getting emails from people telling me how much money they are making daytrading. The problem is, when volatility begins to dry up, they'll have no idea what hit them. Experience is the best teacher I suppose.

Kirk: Like me, you are privileged to know a lot of different kinds of traders. Where do you see most traders missing the boat?

Dave Landry: Probably that guys like us know exactly where the market is headed. They don't realize that we take educated guesses at best based on years and years of experience. I guess the hype out there in the educational side of the business is to blame. I try to temper everyone's expectations. And, in the long run—if they can hang in there—they find themselves pleasantly surprised.

Kirk: Likewise, what are some qualities you frequently find among the most successful traders you know?

Dave Landry: They know that they don't know everything. They put their egos aside. They worry as much about protecting capital as they do growing it.

Kirk: Thinking back, what was most instrumental in your development into becoming a successful trader?

Dave Landry: Realizing that there is no holy grail and that a simple approach with proper money management can actually work.

Kirk: When all is said and done, in your experience what is the best way to learn how to trade?

Dave Landry: Take 1 pattern and learn it. Study it. Find 100s of examples over a variety of conditions. Study when it works and more importantly, study when it doesn't. Start small and build. Treat trading like any other profession. You didn't become a Doctor, Lawyer, or automatic transmission mechanic overnight. Trading is no different.

Kirk: But, those ads for trading systems and newsletters sure do make it look easy, don't they?

I suspect like all good traders you are working on improving your performance in some manner. Can you share what you're specifically working on right now?

Dave Landry: I'm spending more and more time just studying charts daily. I find that over time, hours looking at charts really pays off. Projects such as books, articles, webinars, my trading service, and other educational things help to me become better and better. It forces me to practice what I preach because the whole world (well, at least part of it) is watching.

Kirk: They say the best way to learn anything is to teach others, something I'm finding within my mentorship groups. So, if someone approached you who had no knowledge of technical analysis before and desired to really gain a solid understanding and skill, how would you recommend they go about learning the craft?

Dave Landry: Read the book I'm working on-coming soon to bookstore near you. LOL. Seriously, know that a lot of Wall Street wisdom is wrong. Know that one knows exactly where the market is headed. Know that the only thing that matters is technicals—fundamentals do not matter. Everything is priced in. Charts and only charts show you exactly what traders have done and what they will likely be inspired to do next. Start small and build. Understand the importance of money management. Understand the psychological pitfalls of trading—know that you are your own worst enemy. Essentially everything that I've written about in my new book, coming soon to a bookstore near you. LOL. I'm know I'm being silly but in the last few years, I have answered 30,000 emails. From these I know what questions need to be answered. I think I did a pretty good job answering them in my upcoming book.

Kirk: I look forward to reading it. So, do you have any books, websites, etc. that you highly recommend beyond your own website?

Dave Landry: Yes. Of course you have to read the obligatory Livermore: Reminiscences of a Stock Operator by Lefeve (allegedly written by Livermore). Read Livermore's Biography by Smitten. Read How to Trade Stocks by Livermore. Read all of the Market Wizard books. For T/A primers ready anything by Murphy and read Pring too. Also read Edwards and Mcgee for classical technical analysis. Also read Schabaker. Read the first 30-50 pages of How to Make Profits in Commodities by Gann. The common sense stuff from Gann is great. I let everyone else try to sort out all that arcane stuff.

Kirk: At this point of your career, who do you look up to for inspiration and guidance?

Dave Landry: Good question. There are people who I admire but I've become so independent, I'd worry that they would see me asking for guidance as weakness. Larry Connors and Jeff Cooper helped me early on in my career (mid 90s). Usually, you always get something good out of Linda Raschke. I've always been a fan of hers. I've recently joined the American Association of Technical Analysts. I'm very much impressed and humbled with the line up there (which includes people such as Linda Raschke). I'd love to get to know more of the members better. I've recently gotten to know **Adrian Manz** through business dealings. Although I'm not a big fan of daytrading, I respect what he does. Tom Incorvia who runs the trend following portion of their hedge fund has an approach similar to mind and seems to do well. Joe Corona is another trader that comes to mind. He's worked on and off through the years with "Market Wizard" Tony Saliba.

Kirk: Although I know both of us share of love for the markets and trading, what are your long-term career plans and future for your website?

Dave Landry: My website is in need an overhaul. That's on the "to do" list. The learning curve in trading is a steep one. On my whiteboard is a project to help with this. It's only in the thinking phase now and about 3 projects down the road, but I'm thinking. I don't think I'd ever leave trading. I also enjoy the educational "retail" side of the business. I enjoy helping people become successful. It's very rewarding. I'm not sure I'd ever that side of the business but I would like to get more involved with the institutional side. I think I could help mutual funds do what they do a lot better through the use of technical analysis.

Kirk: What are some of your personal passions beyond the market?

Dave Landry: Oh gees, you're going to be sorry you asked. My wife Marcy calls me "Hobby Boy." I've dabbled in a little bit of everything. I've always been like this. It makes for some interesting childhood stories. Sorry Mom! I tend to be gung ho once I'm into something. I used to spend a lot of time racing sailboats that was putting a bit of strain on the home life and business. Now I keep most of my hobbies a little closer to home. One of my hobbies in recent years is high powered rocketry. I have the unofficial Louisiana record for the largest amateur rockets ever launched. It's over 11 feet tall, 8" diameter at its maximum, with a 2 foot fin span. Others have flown bigger motors, but not bigger rockets to my knowledge.

I often tell my clients when a profit target is hit to "Smoke 'em if you got 'em." "Smoke 'm if you Got 'm is a play on words." An M motor is a large rocket motor, weighing 10 to 20lbs loaded. I have a bit of an inventor side to me. I like dabbling with composite materials. Rocketry has taught me a lot about this. Rocketry also allows me to say "trading is not rocket science, and if it was, I know a little about that too."

My latest hobby is restoring vintage cars. My current project is a 1975 Pontiac Grandville Convertible inspired by Pedro's cousin's sweet ride in Napoleon Dynamite. I'm thinking about my next projects but need to figure out how to get them into the barn without my wife seeing them. Marcy, if you're reading this, that's not my car in the barn.

Outside of hobbies and family life, I've written a children's book that I hope to have illustrated and published soon. A portion of the proceeds will go to charity.

I think it's a good thing to have interests outside of trading. I'm still obsessive about the markets but not nearly as bad as I used to me. In no longer consumes me after hours. I look forward to my distractions. In fact, sometimes my best ideas come to me while I'm in the garage.

Kirk: Please don't blow yourself up Dave. Good traders helping other traders is something heavily in demand.

Dave Landry: The two major rocketry associations just won a lawsuit against the government for unjustifiably classifying the propellant we use as an explosive. So, that's not going to happen. Due to stringent self imposed rules, rocketry is a safe hobby. It actually has a better safety record than Golf.

Kirk: Indeed. Golf can and often is dangerous. Just ask anyone who plays with me!

Finally, if you had one piece of advice to share with all investors and traders, what would it be?

Dave Landry: Again, give yourself time to become successful. You must experience a variety of conditions. Understand the importance of money management. It's a business of longevity. You survive until you get it through the use of proper money management. Simple methods can work. Start with one pattern and get good with it. Then, slowly build. Understand the importance of Trader's Psychology. Realize that the battle is often within.

Kirk: Thank you Dave.

Dave Landry: It was my pleasure.

** Readers are encouraged to visit Dave's **website** and if you have questions about any of the above, please feel free to contact him at **dave@davelandry.com***

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